The Singapore Guide to Conduct & Market Practices for Treasury Activities

SINGAPORE FOREIGN EXCHANGE MARKET COMMITTEE

The Singapore Guide to Conduct & Market Practices for Treasury Activities

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INTRODUCTION

BACKGROUND

The smooth and efficient functioning of a financial market depends heavily on the professional standards and integrity of those who are engaged in it. As the market grows in size, diversity and complexity, the demands for higher ethical conduct and uniform practices increase correspondingly. In helping to foster Singapore's continual growth as a key international financial center, the Singapore Foreign Exchange Market Committee (SFEMC) reaffirms its belief that the center's prosperity and viability is inextricably intertwined with its reputation for excellence and professionalism.

In keeping with this belief, the SFEMC regularly reviews market conduct and practices to ensure that they are in line with international best practices as well as safeguard the soundness of the system. Since "The Singapore Guide to Conduct and Market Practices for Treasury Activities" (popularly known as "The Blue Book") was revised in 1998, many developments have taken place, notably the proliferation of derivatives products and electronic trading. There have also been changes in the legislative and regulatory landscape. Against this backdrop, The Blue Book was subject to a full review in order to bring the Guide up to date with these developments and current market issues.

APPLICABILITY

This Guide is applicable to all wholesale dealings in the over-the-counter markets for:

1. Foreign Exchange (spot and forwards)
2. Money Market Instruments
3. Debt Securities
4. Derivatives Products
5. Other Emerging Market Instruments

It sets out the principles which should govern the conduct of management and employees at all institutions engaged in these wholesale markets. These institutions include, without limitation, Brokers (both traditional money brokers and firms offering electronic broking services) and Principals (commercial banks, merchant banks and other recognized financial institutions), which carry on a business in Singapore or with an institution in Singapore.

PURPOSE

This Guide is meant to foster a high standard of business conduct and good market practices for transactions in the relevant financial products and to ensure equitable and healthy relationships between market participants. By providing a benchmark, this Guide also seeks to facilitate market efficiency, minimize disputes between counterparties and set an objective basis for arbitration between disputing parties if that is necessary. Hence, it is imperative that the management of Brokers and Principals are well acquainted with this Guide and ensure the compliance with the same in respect of their dealers and brokers.

NATURE OF GUIDE

While every effort has been made to ensure that this Guide comprehensively addresses various aspects of conduct and market practices, it does not purport to be exhaustive. Where specific guidance is absent on a particular issue, market participants should draw on the broad principles upheld by the Guide and resolve such matters reasonably and in good faith.

In general, the Guide restricts its focus to market conduct, i.e. how market participants should conduct their business with each other. Hence, only risk management issues that bear systemic implications or might potentially affect the business of other market participants are included in this Guide. As a result, management of Brokers and Principals should not solely rely on this Guide to fulfill their risk management requirements.

Market participants should also comply with the legislative and regulatory requirements that affect their businesses. In addition, banks should also abide by the guidelines and byelaws of the Association of Banks in Singapore (ABS). While the SFEMC has endeavored to ensure that the content of this Guide is consistent with these legislations, regulations and guidelines, where in doubt, market participants should consult with their legal counsel. It should be noted that this Guide is not intended to have any contractual or legal effect (save for those guidelines that are mandated as laws)

MAJOR CHANGES & CONTENT

Apart from re-organizing this Guide into twelve chapters (previously five) for easier reference and updating market conventions, this edition introduces guidelines on the following subjects:

1. Internet Trading Activities
2. Handling Market Disruptions
3. Emerging Market Activities

In this Guide, unless the context otherwise requires, the terms Principals and Dealers are used interchangeably to mean management and staff of commercial banks, merchant banks and other recognized financial institutions that are directly engaged in the dealing of treasury and OTC derivatives products.

ACKNOWLEDGMENT

The SFEMC gratefully acknowledges the goodwill of the ACI – The Financial Markets Association in permitting its Model Code to be used as a source of invaluable reference, from which a limited number of statements[1] in this Guide are also drawn.

[1] Direct quotes from the Model Code include: Chapter III Section 4 (Intra-day Deal Checks), Chapter III Item 7.1, 7.3 & 7.4 (Stop-loss Orders), Chapter IV Section 1 (Confirmation Procedure) and Chapter X item 2.1 (Electronic Broking). We also drew on the Model Code's definitions on currency options to supplement ours.

Chapter I
ETHICS & BEHAVIORAL STANDARDS

Market participants are expected to demonstrate a high standard of personal and professional integrity in their conduct. This Chapter sets out the behavioral and ethical standards dealers and brokers should observe in the discharge of their functions.

1. CONFIDENTIALITY – GENERAL PRINCIPLE

1.1. Confidentiality and customer anonymity are essential for preserving a reputable and efficient market place.

1.2 Dealers and brokers must preserve, and aid in preserving, confidentiality in all matters including information on customers and dealing counterparties coming to their knowledge in the performance of their duties. They share an equal responsibility for preserving the integrity of the market through the proper maintenance of confidentiality.

1.3 Management is responsible for ensuring that their staff have been trained to identify and to treat information that is sensitive and to deal appropriately with situations that require anonymity and discretion. Also, managers must not condone staff utilizing confidential material for personal benefit.

2. CONFIDENTIALITY – DEALING PRACTICE

2.1 Brokers shall not reveal the identity of their Principals to any deal unless when appropriate under the accepted terms of disclosing names or when expressly authorized to do so by the Principals. Dealers shall ensure that the identity of customers and counterparties is always kept confidential.

2.2 Banks' names should never be disclosed until the deal is closed. Brokers should not divulge the names of Principals or counterparties prematurely. Names should be revealed only when the broker is satisfied that both sides seriously intend to transact.

2.3 A dealer should not, in any way, pressure a broker by inducement, threat or promise, for information, which would be improper for the latter to divulge. Pressure includes any statement to the effect of, or which could be construed as implying, that a failure to cooperate would lead to a reduction in the business given by the dealer or other dealers to the broker. Dealers should similarly resist any pressure from their clients to divulge confidential information and should report any such incidents to their management.

2.4 Market participants should not visit each other's dealing rooms except with the permission of their respective managements. No deals should be concluded by dealers in brokers' dealing rooms.

2.5 The use of loudspeaker equipment to channel confidential information to third parties is improper and should not be allowed. If loudspeaker equipment must be used such device should be carefully managed to prevent any breach of confidentiality, inadvertent or otherwise.

3. BETS AND GAMBLING

3.1 Making or arranging bets among market participants is forbidden.

3.2 There should be no gambling within the dealing rooms of the broking firms and banks.

4. ENTERTAINMENT, GIFTS AND FAVORS

4.1 While meeting over meals or drinks can help foster healthy business relationships among market participants, the practice of entertainment may be open to abuse. It is therefore essential for management of banks and brokers to formulate guidelines to guard against abuse and excess. Management should exercise judgment as to what constitutes other forms of acceptable entertainment and advise their staff accordingly.

4.2 Bank management should take special note of the form, frequency and cost of entertainment and gifts their dealers receive or provide. Mechanisms set up to monitor them should include, among other things, regular reports from broking companies (including electronic broking companies) detailing in full all entertainment expenses and the nature of entertainment accorded to individual bank dealers.

4.3 No brokers should offer expensive gifts or favors to dealers. Dealers should also not solicit or receive gifts for personal benefit. The solicitation of corporate gifts, other than for charitable purposes, is also discouraged.

4.4 Dealers should notify their management when they are offered unusual favors.

5. DEALING FOR PERSONAL ACCOUNT

5.1 Management should have clear guidelines on whether dealing staff are allowed to trade for their own account in any of the instruments and products their organization is dealing in. If this is allowed, management must ensure that adequate safeguards are established to prevent abuse. These controls should reflect the need to prevent insider trading in any form and ensure that the interests of the firm and its customers are adequately protected at all times.

5.2 Dealers who trade for their own account must be aware of their responsibilities to avoid any form of conflict of interests with their professional roles.

5.3 In this respect, where dealing for personal account is permitted, management's written procedures should clearly stipulate the institution's control policy in relation to the unprofessional practice often referred to as "front running". This arises where an employee could execute a personal trade in advance of a client's or institutional order to benefit from an anticipated movement in the market price following the execution of a large trade.

6. RUMORS & FALSE INFORMATION

6.1 Dealers or brokers should not willfully spread rumors or disseminate false or misleading information. In addition, care must be exercised when handling unsubstantiated market information.

7. MARKET TERMINOLOGY

7.1 Dealers and brokers should use clear and unambiguous language when dealing or negotiating transactions. Management of banks and broking firms should ensure that their staff are aware of their responsibility to act professionally and are familiar with market terminology and conventions.

7.2 A list of Market Terminology and Definitions is included with this Guide. Dealers and brokers should familiarize themselves with the various terms and definitions.

8. PROFESSIONAL KNOWLEDGE

8.1 It is important to maintain a consistently high level of awareness and understanding of market practices and conduct among dealers and brokers so as to reinforce the foundation for strengthening overall professional standards of the dealing community. To achieve this, ongoing standardized tests are administered by the Institute of Banking & Finance for new dealers and brokers. All new entrants to the market with less than 2 years of experience, both locals and foreigners, should undergo and pass the test.

8.2 In a rapidly evolving environment, market participants must ensure that their professional knowledge is competently maintained so that the interests of their customers are protected and the reputation of the markets preserved.

9. OTHERS

9.1 Market participants should at all times maintain conduct that reflects the highest personal integrity in their undertakings and contractual arrangements with their management and customers.

9.2 Institutions should share the responsibility of maintaining the smooth functioning of the Singapore financial market and therefore, should avoid adopting policies, which may lead to circumstances that contribute to disrupting the normal operations of another counterparty.

Chapter II
RISK MANAGEMENT PRINCIPLES

It is the responsibility of each institution to manage the risks that arise from their market activities in accordance with regulatory guidelines and other policies or procedures. This Guide is therefore only concerned with risk management practices that could potentially undermine the smooth operation of the markets or the reputation of the financial center.

1. SEGREGATION OF DUTIES

1.1 Many trading-related scandals, which affect other market participants, have their roots in inadequate internal controls and segregation of duties. Management of institutions engaged in market activities are expected to manage their risks prudently and responsibly in accordance with regulatory guidelines, best practices and other established principles of risk management.

1.2 While risk management practices should be commensurate with the characteristics and scale of a firm's activities, at the minimum, there should exist proper segregation of duties between the trading, risk management and processing functions, commonly referred to as the front, middle and back offices.

2. MONEY LAUNDERING, FRAUD AND OTHER CRIMINAL ACTIVITIES

2.1 Banks must take steps to ensure that their transactions are not used to facilitate money laundering, fraud or other criminal activities. Broking firms should also help to guard against market transactions being used for money laundering etc. In this regard, the Know-Your-Customer (KYC) principle is of paramount importance. Management of banks and broking firms should institute appropriate measures to enforce the KYC principle in their respective businesses.

2.2 In the event of any suspicious circumstances (e.g., unusual settlement instructions, interbank transactions with fund payment in favor of a third party etc.), dealers should notify their management without delay. Banks in particular should develop proper procedures for handling any suspicious transactions and ensure that all dealing staff are well versed with these measures, keeping in mind their obligations and/or liabilities under laws and regulations such as:

- Corruption, Drug Trafficking & Other Serious Crimes (Confiscation of Benefits) Act (Cap 84A)
- MAS Notice 626 to banks - Guidelines on Prevention of Money Laundering
- The ABS' Guidelines: Prevention Of The Misuse Of The Banking System In Singapore For Money Laundering Purposes

3. TRANSACTIONS WITH CUSTOMERS

3.1 Management should establish policies and procedures on the conduct of treasury and derivative transactions with customers, especially high-risk or highly leveraged ones, paying particular attention to credit evaluation and approval.

3.2 Procedures should also define all effective controls over customer margin accounts. These include procedures on margin maintenance, margin call, top-up and close-out.

3.3 Banks and dealers should satisfy themselves that the nature, complexity or risks of proposed transactions are appropriate for the financial objectives of their customers. It is important that banks and dealers ensure that their customers fully understand the nature and potential risk of the product offered to them, especially derivatives, before the transactions are done.

3.4 Dealers involved in such transactions should act honestly and in good faith when marketing these products and transacting with customers. They should avoid fraudulent, deceptive or manipulative practices. Dealers should also familiarize themselves with their obligations under the Financial Advisers Act.

3.5 Dealers or appropriate bank personnel should take sufficient measures to satisfy themselves that the customers and their staff are duly authorized to deal in these products.

3.6 Transacting rollovers of FX transactions at non-current rates is not recommended, but where transacted, guidelines relating to these transactions should be closely adhered to. See Item 2 of Chapter VI.

4. SETTLEMENT RISK

4.1 Settlement risks not only pose a credit concern for the parties to a transaction, but could also present the market with a systemic risk. Banks are therefore strongly urged to institute prudent measures to manage and reduce their settlement risks, including the use of payment netting or other means. It is also essential that all settlement disputes or problems be resolved promptly and with utmost effort to minimize any disruption to trading activities.

4.2 As Singapore Dollars payments are settled on a Real Time Gross Settlement (RTGS) basis, banks are expected to take all necessary steps to prevent a gridlock to the system by making payments promptly and minimizing operational errors in settling transactions.

5. INTERNET TRADING ACTIVITIES

5.1 As trading through the Internet proliferates, it is important for all market participants to adopt prudent risk management frameworks before embarking on such activities as well as to comply with regulatory standards issued by the MAS.

5.2 Institutions that offer trading activities through the Internet in particular should ensure that any breach of security to its systems such as through hacking or other intrusions, which affect other market participants or its customers, is promptly communicated to the affected parties.

Chapter III
GENERAL DEALING PRINCIPLES AND MARKET CONDUCT

The efficient functioning of the market is dependent on the responsible conduct of every market participant. This Chapter spells out the basic principles for the conduct of market activities, duties and obligations of market participants as well as market dispute resolution channels.

1. PRICE/RATE QUOTATIONS

1.1 All market participants, whether acting as Principal or broker, have a duty to make absolutely clear whether the prices they are quoting are firm or merely indicative. Prices quoted by brokers should be taken to be firm in marketable amounts unless otherwise qualified.

1.2 A Principal, quoting a firm price/rate and stating his requirements to a broker, is bound to deal at those terms with an acceptable name, regardless of the market level. For their part, a broker is expected to confirm with his/her Principal at regular intervals on whether the latter's interests at specific prices/rates are still firm.

1.3 If a Principal has interest on one side of a two-way price and the other side is dealt away by other parties, the broker should automatically put the price "under reference". The broker should then check with the Principal to ascertain his original interest.

1.4 When Principals place orders with special conditions attached, brokers must accurately relay the said conditions.

2. FRIVOLOUS QUOTES

2.1 Dealers and brokers are strongly cautioned against making frivolous quotes which they have no intention of honoring and which are designed merely to mislead market participants.

2.2 Dealers and brokers should not engage in practices, which may realize immediate gain (or avoid loss) but may compromise their employers' or their own reputation.

2.3 Dealers and brokers should promptly report to their management whenever they spot other brokers or dealers acting in a way that jeopardizes the interests or reputation of the treasury market, such as unsubstantiated "spoofing" (that is, a dealer putting quotes in the market and withdrawing almost immediately to avoid being hit as he does not intend to deal at that price).

3. AFTER-HOURS & OFF-PREMISES DEALING

3.1 With the internationalization of the financial markets, problems can arise from dealing being conducted after normal business hours, particularly from premises other than the banks' dealing rooms. There is the possibility that dealers may subsequently deny, or simply forget having done a deal. Brokers may find themselves exposed in that a bank may put in a claim for a difference where a counterparty denies having dealt. It is recommended, therefore, that dealings after-hours and/or off-premises should only be undertaken with the prior permission of management.

3.2 Management should issue clear guidelines to their staff on the extent of such dealings including names of persons authorized to deal, transaction limits, and so on.

3.3 Management should also institute a control system to enable prompt recording and confirmation of all after-hours and off-premises dealings.

3.4 Brokers, on their part, should satisfy themselves as to the identity of the bank dealer. Brokers should refuse to quote to any party that they cannot identify on the phone.

3.5 Management must clearly identify those types of transactions that may be entered into as well as designate and inform their counterparties of those individuals authorized to deal outside the office. Confirmations for deals arranged off-premises should be sent promptly to the appropriate staff at the office.

4. INTRADAY DEAL CHECKS

4.1 The practice of intra-day oral deal checks is strongly recommended as it can be an important means of helping to reduce the number and size of differences, particularly when dealing through voice brokers, or for deals involving foreign counterparties. It can also be useful in the faster moving markets such as foreign exchange or when dealing in other instruments, which have short settlement periods.

4.2 It is for each firm to agree with their brokers (or counterparties) whether or not it wishes to institute this practice; and if so, how many such checks a day it requires.

4.3 If a single check is thought to be sufficient, it is recommended that this be undertaken towards or at the end of the trading day.

4.4 There should always be an acknowledgement between the parties on completion of the check that all deals have been agreed or, if not, that any identified discrepancies are resolved as a matter of urgency. Where the discrepancy involves a dispute resulting in an open risk for either counterparty, the position should be immediately closed out in the market without inference that either party is wrong pending final resolution of the dispute. Where either party first highlights an error or difference, lack of response from the other party should not be construed as an acknowledgement by the latter.

5. BROKER POSITIONS

5.1 A broker must not engage, however temporarily, in taking positions by closing a deal without first having a counterparty to substantiate the price and assume a deal. A broker must not quote a price, which he represents to be firm but which is not substantiated by a Principal.

5.2. Where a broker quotes a firm price to a Principal, the latter is entitled to hold him to the price. When a broker is unable to substantiate a firm price and the Principal holds him to it, it is said that the broker is "stuffed." It is expected that "stuffing" should be an exceptional occurrence. It is recommended that the dealer exercises his discretion not to hold the broker to the price if the broker is unable to substantiate a firm quote, provided the broker informs the dealer immediately of the fact and a good reason is given.

5.3 If holding a broker to a price is deemed justifiable, the management of the bank and broker must be informed. In addition, a dealer should not insist on a replacement deal at the price or with the counterparty originally proposed by the broker. The broker is permitted and the dealer is obliged to settle the difference between the price quoted and the replacement price by way of a cheque or wire transfer payable to the bank. Settlement by any other means where accountability and transparency is impaired must be avoided. It is recommended that such settlements be clearly documented by both the broking company and bank.

6. POINTS & POSITION PARKING

6.1 Under no circumstances should market participants engage in artificial transactions for the purpose of concealing positions or transferring profits and losses as such activities, sometimes referred to as points or position parking, not only undermine the integrity of the markets but may also attract legal liability for the individuals or firms concerned.

7. STOP-LOSS ORDERS

7.1 Parties giving or receiving stop-loss orders shall ensure that both parties mutually understand the terms under which such orders are made. In accepting these orders, whilst an institution assumes an obligation to make every reasonable effort to execute the order promptly, there is no guarantee of fixed price execution to the counterparty.

7.2 Anyone accepting such an order should have adequate lines of communication with the giver of the order so that contact can be made in the event of extremely volatile market conditions or other unusual situations.

7.3 Where a dispute arises as to whether the market reached the level required to trigger the execution of the order, it should be borne in mind that whichever source is used to verify the market range, a totally accurate definitive record may be difficult to obtain.

7.4 Any one source such as an individual broking company who may be asked to indicate market highs and lows may not always have the full trading range for the day and can only indicate the highs and lows which it has seen. Consequently, such information should be treated with professional discretion and caution.

8. TELEPHONE RECORDING

8.1 For investigating and resolving differences and disputes, quick resolution is facilitated by tape recordings of telephone conversation. The use of recording equipment in the offices of banks and brokers is strongly recommended. Firms should inform their counterparties and clients that conversations will be recorded upon installation of recording equipment. Firms should have internal policies to ensure they comply with appropriate data and tape recording retention requirements. In general, tapes should be kept for at least two months. Those dealing in longer term instruments such as interest rate swaps, forward rate agreements or similar other instruments where errors or discrepancies may only be discovered on the date when the first movement of funds is due to take place, should retain tapes relevant to these transactions for longer periods for the sake of prudence. Management should ensure that access to tapes whether in use or in store, is strictly controlled so that they cannot be tampered with. Firms should implement policies to ensure that appropriate confidentiality of taped conversations is maintained.

8.2 Management should recognize that mobile phones could be used to circumvent telephone recording and compromise confidentiality. They should adopt appropriate policies to restrict the usage of mobile phones in their dealing rooms.

9. DIRECT DEALING

9.1 It is felt that certain guidelines should be adhered to when dealing directly between Principals. Banks are not obliged to quote when called upon. However, the answering party should respond and indicate quickly when it is unwilling to quote. Banks are not obliged to deal on any pre-determined amount.

9.2 No dealer should place orders with brokers with the intention of identifying the counterparty, so as to conclude a deal or part of it, in a direct transaction.

10. DEALING AMOUNTS

10.1 For the markets to function smoothly, there must be a consensual understanding of minimum dealing amounts between participants when an amount is not specified with a quoted price. Such minimum dealing amounts vary by product and currency. Where there is any doubt between two participants about what constitutes such a dealing amount, it is strongly recommended that a clear understanding be established before attempting to transact with each other.

10.2 Principals who wish to deal in odd amounts should specify their conditions to their counterparties at the outset. The price quoter has the right to reject odd amounts if no prior indication of amount is given.

11. COMPLAINTS PROCEDURE

11.1 If the management of a bank or broking firm believes that an institution it has dealt with has breached the letter or spirit of the Guide, it should seek to settle this amicably with the other party. If this is not possible, the institution, which is subject to the complaint, should make the complainant aware that it can bring the matter to the attention of the Secretary, SFEMC.

11.2 Management of banks or broking firms should ensure that all complaints are promptly and fairly investigated by independent parties in its organization, and documented where possible.

12. ARBITRATION PROCEDURE

12.1 Where disputes arise, it is essential that the management of the parties involved take prompt action to resolve or settle the matter fairly and with utmost integrity and mutual respect. The SFEMC shall provide a forum for resolution of any dispute between market participants on dealing ethics or current market practices in relation to specific transactions in the wholesale markets, after the parties have exhausted their own efforts to resolve the matter directly. All parties must however agree to the SFEMC's role and accept its decision in full and final settlement of the dispute.

12.2 Requests for arbitration should be addressed to the Secretary, SFEMC. A request shall be concise but shall contain all necessary information to facilitate the SFEMC's actions.

13. ACU & DBU TRANSACTIONS

13.1 Dealers and brokers should satisfy themselves whether they are dealing with a Domestic Banking Unit (DBU) or an Asian Currency Unit (ACU). Unless otherwise stated, it should be assumed that transactions in foreign currencies are for ACUs. Transactions involving the Singapore Dollar shall be booked in the DBU.

Chapter IV
Back Office Practices

Back office constitutes an important part of any treasury operations not only in ensuring that deals are processed and settled efficiently but also in strengthening risk control that is essential for the overall health of the financial markets. Practices in the back office thus have a major bearing on the conduct of market activities. As such, a common understanding of the relevant issues is set forth in this Chapter to minimize disruption to market activities.

1. CONFIRMATION PROCEDURE

1.1 All transactions have to be confirmed in writing. The issue and checking of confirmations is a back office responsibility, which should be carried out independently of those who initiate deals.

1.2 Confirmations should be sent out as quickly as possible by both counterparties through an efficient and secure means of communication (preferably electronic) after a deal has been done and should be addressed to the back office or settlements department of the counterparty.

1.3 The practice of sending 2 confirmations (e.g. an initial one by fax or electronic means) followed by a written confirmation is not recommended as the latter, if posted might not arrive until after the settlement date and if conflicts with the earlier confirmation could cause confusion and uncertainty.

1.4 The format and content of a confirmation will vary according to the instrument dealt in and reference should be made to any applicable terms and conditions published in order to ascertain the correct content and format for any particular instrument. As a minimum, however, all confirmations should include the following information:

- Date of transaction,
- By which means effected (Broker, phone, telex, dealing system, etc.),
- Name and Location of Counterparty,
- Rate, amount and currency,
- Type and side of deal,
- Value date, maturity date and all other relevant dates (e.g. exercise date, etc.),
- Standard terms/conditions applicable (e.g. FRABBA, BBAIRS, ISDA, ICOM, etc.),
- All other important, relevant information.

1.5 Brokers should confirm all transactions to both counterparties immediately by fax or other acceptable electronic means. Where after a transaction, a broker fails to send a confirmation and the Principal misses out the deal entirely, liability for any financial losses will be shared equally.

1.6 It is vital that Principals check confirmations carefully and immediately upon receipt so that discrepancies can be quickly revealed and corrected. If the counterparty confirmation is considered incorrect, the counterparty must immediately be informed (preferably in writing or by electronic means). A new confirmation (or written agreement to a correction) must be requested from and be provided by the bank or counterparty whose original confirmation was incorrect.

1.7 It is not uncommon in some derivatives markets, and perfectly acceptable if the two Principals involved agree, for only one party to the deal (rather than both) to send out a confirmation. But where this is so, it is imperative not only that the recipient checks it promptly, but that it also in good time responds to the issuer of the confirmation agreeing/querying the terms. It is also essential that the issuer of the confirmation has in place procedures for chasing a response if one is not forthcoming within a few hours of the confirmation being sent.

1.8 Many automated dealing systems produce confirmations automatically. Provided these are verified in the back office, no additional confirmation need be sent.

2. PAYMENT INSTRUCTIONS

2.1 It is the fundamental duty of each party to a deal to specify clearly and promptly where their funds should be paid. Failure to do so can result in costly overdraft costs and other compensation.

2.2 The use of standardized settlement instructions (SSIs) is strongly recommended as their use can significantly reduce mistakes in settlement instructions. SSIs should be established or amended by way of an authenticated Swift message, tested telex or an authorized letter. The use of Swift broadcast for such purposes is not recommended. Principals should also state clearly the type of transactions these SSIs cover and their effective dates. It is an accepted practice to assume that SSIs are valid till they are superceded or canceled by the counterparty concerned.

2.3. When an SSI is to be changed, sufficient grace period should be provided for counterparties to implement the change.

2.4 The bank should immediately notify the counterparty (in the case of a direct deal) or the broker (in the case of a brokered deal) about alterations to the original payment instructions, including the paying agent. This notification should be supported by written, telex or similar confirmation of the new instructions, receipt of which should be acknowledged by the counterparty concerned. If the Principal fails to inform the broker of a change in its instructions, this could result in the liability for any ensuing difference with the Principal.

2.5 Where a broker has made an error in payment instructions, it should be recognized that the broker is highly dependent on the affected Principal to rectify the error and limit the resultant loss. It is therefore recommended that banks should offer the necessary assistance in good faith to the broker in such event. Additionally, it is accepted that if the Principal has made the initial error, he remains liable throughout. In the case of a broker's error, he is liable for the resulting differences for three business days following

the date of the transaction. If the Principal fails to report the discrepancies to the brokers within three business days, then the brokers will be relieved of any further liability.

2.6 Unless otherwise stated, it shall be assumed that settlement in Singapore dollars between banks in Singapore shall be made through accounts maintained with the Monetary Authority of Singapore.

2.7 In the interbank markets, the use of third party payment instructions, i.e. where the beneficiary of a transaction is a third party, is deemed unusual. Such instructions can only be accepted with the expressed approval of the management of both parties to the deal.

3. PENALTIES FOR LATE PAYMENT

3.1 Where difference in payment arises because of errors in the payment of funds, Principals are reminded that they should not benefit from undue enrichment by retaining the funds.

3.2 Where a bank suffers penalties for overdrawing an account arising from late payment of funds, it is entitled to seek reimbursement from the party responsible for the late payment.

3.3 In the case of local currency transactions, late payments should be settled in accordance with Section K2 of the Association of Banks in Singapore's Bye-laws and Regulations.

Chapter V
Handling Market Disruptions

From time to time, market activities might be disrupted by unforeseen events. Under such circumstances, both dealing and settlement operations might be adversely affected. Unfortunately, each disruption event bears its own characteristics and as such it is not possible to set out in advance the manner in which market participants should conduct their business. However, in this Chapter, we believe it is useful to outline some key principles based on recent experiences.

1. GENERAL DESCRIPTION

1.1 Market disruption events refer to circumstances where normal trading or settlement of financial transactions are inhibited or have become impossible or illegal due to governmental actions, natural catastrophes, civil disorders or other causes beyond the control of any individual institution. The exact period of disruption may or may not be determinable.

2. ROLE OF SFEMC

2.1 The role of the SFEMC in a market disruption event depends on the nature of the event and the magnitude of its impact on the wholesale treasury and debt markets in Singapore. It is generally envisaged that the SFEMC would work closely with market participants, related industry bodies both locally and overseas as well as regulators to minimize uncertainties and impact on trading and settlement operations.

2.2 Notwithstanding the aforementioned, the SFEMC's role is limited to offering practical recommendations to market participants in order to minimize the risks created by a disruption event. While market participants are encouraged to adopt the SFEMC's recommendations, they must however negotiate bilaterally with their counterparts in accordance with any contractual terms agreed to between them for a satisfactory resolution to any affected transactions or obligations.

3. COMMUNICATION DURING DISRUPTION

3.1 To the extent possible, it is the duty of all market participants to maintain effective communication with their counterparts and other related parties such as settlement agents, customers and the MAS throughout a disruption event. This is regardless of whether an operation remains in Singapore or has to be relocated elsewhere due to the nature of the disruption event.

3.2 The SFEMC would endeavor to disseminate its recommendations or other information to market participants through the most efficient means available, including but not limited to announcements through its website, broadcasts through MASNET or direct telephone contacts with senior management of banks and financial institutions in Singapore. However, market participants are also encouraged to establish contacts with the Secretary of the SFEMC where needed.

3.3 To minimize miscommunication, it is recommended that where possible all oral communications during a market disruption event be tape-recorded, including those between staff of back-office.

4. ETHICAL STANDARDS

4.1 Market participants are expected to uphold the highest standard of professionalism not only under normal market conditions but more so during a crisis situation.

4.2 All negotiations between market participants must be carried out in utmost good faith and by persons who are properly authorized by their respective management. It is deemed bad practice for any party to withdraw from an agreement on the ground of a representative not having sufficient authority during the negotiation.

4.3 Cherry-picking whether pursued intentionally or otherwise when closing out outstanding transactions would hamper speedy resolution between participants. It must thus be avoided.

5. SETTLEMENT DURING MARKET DISRUPTION

5.1 In general, settlements during market disruptions should be guided by contractual obligations laid down by master or other documentations between parties to the transactions.

5.2 Since FX transactions require the settlement of two currencies on the same value date, in the event of one currency's settlement being affected by a disruption event, the settling parties should as far as possible establish a clear understanding of each other's intention before the value date in respect of settlement of the unaffected currency. Unilateral suspension of settlement not only increases credit risks but might also trigger systemic risks, and as such should be avoided.

5.3 Where SGD settlement is disrupted by an unforeseen event, market participants should follow closely the instructions issued by MAS.

6. CONTINGENCY PLANNING

6.1 The ability of the market to effectively manage market disruptions depends heavily on each participant's level of preparedness. Contingency planning is thus critical. Bank managements are strongly urged to establish and implement a contingency plan for treasury operations in the front, middle and back offices to ensure that these operations will continue in the event of a disaster or crisis. If such a plan is already in place, management should review and test it regularly to keep it updated and relevant.

Chapter VI
FOREIGN EXCHANGE DEALING PRACTICES

This Chapter provides guidance for the conduct of spot and forward foreign exchange transactions.

1. MARKET TRADING HOURS

1.1 Foreign exchange trades, whether direct or via a broker, transacted prior to 5.00 AM Sydney time, are done in conditions that are not considered to be normal market-conditions or market hours. Thus the official range in currency markets will be set from 5.00 AM Sydney time on Monday morning, all year round.

1.2 The recognized closing time for the currency markets will be 5.00 PM Friday New York time, all year round.

2. ROLLOVERS OF FX TRANSACTIONS AT NON-CURRENT RATES

2.1 As deals done at non-current rates may be used as a means to conceal profit or loss, or to perpetuate a fraud, the use of non-current rates is strongly discouraged, particularly the extension or rollover of a maturing forward contract. The current market spot rate should be used to liquidate the maturing contract and used as a base from which the new forward rate is derived. The resulting gains/losses on the maturing contract should be taken up by clients.

2.2 However, there may also be clients who request for the rollover of maturing contracts using non-current rates for various reasons. Such requests should not be accommodated as normal practice. But if unavoidable, they should remain exceptional.

2.3 The express approval of the senior management of the Head Office or parent bank should be obtained before the product may be offered. Banks should ensure that the express authorization of the senior management of the corporate clients is in place before transacting such products with the clients. Bank management should ensure that proper systems are established for the monitoring, recording and control of such transactions. Credit exposure and funding cost must be recognized when they occur. When extending contracts at non-current rates, unrealized losses must be booked as a credit extension to the client against established credit lines and subject to the bank's normal appraisal of the client's creditworthiness.

3. VALUE DATES

3.1 Quotations for foreign exchange are for value spot, which is defined as two business days from the date of transaction.

3.2 Misunderstandings can arise over the definition of "value date" and "business day", given the observance of different holidays in various financial centers. In quoting prices, market participants are therefore strongly urged to make clear to their counterparties the precise dates for settlement of transactions.

3.3 Since the interpretation of date conventions might differ (e.g. DDMM versus MMDD), in direct dealing, in order to avoid confusion, it is recommended that the month be spelt out.

4. MARKET DISRUPTION & UNFORESEEN HOLIDAYS

4.1 In unexpected circumstances of general disruption, which result in settlement and payment delays, the SFEMC would endeavor to recommend appropriate settlement prices and/or mechanism for the affected transactions. Parties to such deals are encouraged to use these recommendations to facilitate rapid and efficient resolutions to such delays.

4.2 On unforeseen market holidays, it is market practice to extend contracts maturing on a non-business day to the next business day. In principle, there would be no adjustment of exchange rates on account of such an extension unless expressly provided for in any bilateral agreements between the parties concerned.

5. TRANSACTION DISPUTE

5.1 Where a trade dispute results in one of the two parties concerned having an "unmatched" position, it is strongly recommended that action should be immediately taken by one party (preferably with the agreement of the other) to neutralize the position. Such action should be seen as an act of prudence to eliminate the risk of further loss resulting from the dispute and should not be construed as an admission of liability by that party.

5.2 Such disputes should be referred to management for prompt resolution. Where arbitration is deemed necessary, please refer to Item 12 of Chapter III.

6. HANDLING CREDIT LIMIT ISSUES

6.1 If a bank is unable to trade with a counterparty due to credit reasons, the broker must be allowed to go "choice" for a reasonable period of time.

6.2 If a Principal's price is dealt for the full stated amount but the broker is able to clear only a part of this due to a problem on limits, the broker should be allowed to go "choice" for the balance.

6.3 In situations 6.1 and 6.2 set out above, the broker cannot be held for any amount by either party.

6.4 If a bank does not have sufficient limits to accommodate the counterparty's full amount, but is trying to raise limits, the bank should indicate the minimum amount that can be done. If raising limits takes too long in a fast market, the broker cannot be held for the balance if the counterparty has executed the balance elsewhere.

7. FX SWAP DEALING

7.1 Whilst a foreign exchange swap transaction usually involves the same name on both maturity dates, transactions involving two different names should be accepted unless previously stated.

7.2 Dealers should specify the price being dealt. For example, " yours at X", "mine at Y". This is to avoid confusion between overseas and local terminology.

8. RATE SETTING ON FX SWAPS

8.1 The setting of the spot rate in a FX swap transaction should be done immediately after a price has been hit and before clearing of counterparty's name.

8.2 The price quoter has the right to set the spot rate in a FX swap transaction. However, the price quoter is responsible for setting a fair and unbiased rate within the current spread.

8.3 Clearing of the counterparty's name should be done within a reasonable period of time. Where a reply is not forthcoming, the awaiting party can enquire through the broker on the outcome. Where, in spite of this, there is still no definite answer, the awaiting party is allowed to cancel the deal.

9. DEALING AMOUNTS

9.1 Dealers should avoid the challenging of amounts. If a dealer says "Your amount", "All yours" or "All mine", he is committed to honor the counterparty's full amount.

9.2 If the quoter's price is dealt simultaneously by two or more brokers with the same counterparty, he must honor, subject to limit, the minimum dealing amount with each broker.

9.3 A dealer should specify his amount immediately after dealing on a price and the price quoter must immediately state the amount which he is honoring.

9.4 In instances where a dealer hits a broker's quote for an amount in excess of the minimum dealing amount, and the broker can honor the full amount, the dealer should not insist that the whole amount be in one deal but rather should accept split amounts done reasonably.

Chapter VII
MONEY MARKET DEALING PRACTICES

This Chapter provides guidance for the conduct of money market transactions.

1. VALUE DATES

1.1 Unless specified, quotations for all money market transactions are for value spot. Parties who wish to trade on a different basis should specify when quoting or asking for a price.

1.2 Misunderstandings can arise over the definition of “value date” and “business day”, given the observance of different holidays in various financial centers. In quoting prices, market participants are therefore strongly urged to make clear to their counterparties the precise dates for settlement of transactions.

1.3 Since the interpretation of date conventions might differ (e.g. DDMM versus MMDD), in direct dealing, in order to avoid confusion, it is recommended that the month be spelt out.

2. NAME DISCLOSURE

2.1 The name of the borrower should not be disclosed until the broker has ascertained that the potential lender seriously intends to do business at the quoted price. Once a lender has asked the key question “who pays”, he is considered committed to do business at the price quoted with a name acceptable to him.

2.2 When a borrower’s name provided by a broker is unacceptable to the lender, especially when it is a borrower taking on the offer of a lender, the borrower may sometimes question the existence of a lender at the price quoted by the broker. In this instance, the broker should obtain approval from the lender that his name be disclosed to the borrower. If the lender disagrees, then the broker may seek the assistance of the Secretary of the SFEMC to verify the authenticity of the price quoted and inform the borrower of the outcome of the verification.

2.3 When a potential lender asks, “who pays”, the broker is to provide one name at a time. Only after the lender has finished his business with one borrower and intends to check another name may another name be shown. Brokers should avoid putting up more than one name when asked the question “who pays”.

3. CLOSING DEALS

3.1 Clearing of the borrower’s name by a lender should be done within a reasonable period of time. Where a reply is not forthcoming, the broker is to enquire with the lender of the outcome. Where, in spite of this, there is still no definite answer, the broker is allowed to take the order off.

3.2 It is generally accepted that a borrower borrowing money has the right to decline the name of the lender after the name is passed. Such rejections must have the confirmation of a senior representative of the borrowing institution.

3.3 After closing a deal, a lender may discover that he has exceeded the limits to a borrower. The Chief Dealer of the lending bank should immediately, upon discovery of the excess, advise both the broker and the borrower of the oversight. The borrower should not insist on the original lender as the counterparty if another acceptable lender can be found. Both the original lender and broker must endeavor to find a third party to take over the transaction. Any cost incurred shall be borne by the original lender. If no alternative lender can be found, the original deal must stand.

3.4 Dealing a minimal amount through a broker with the intention of ascertaining the name of the counterparty in order to make direct contact to deal is unethical and should not take place.

3.5 If a bank is unable to deal with a counterparty for a valid reason, the broker must be allowed to go "choice" for a reasonable period of time.

3.6 If a dealer's price is hit for a full amount but the broker is able to clear only a part of this due to a problem on limits, the broker should be allowed to go "choice" for the balance.

3.7 In situations 3.5 and 3.6 set out above, the broker cannot be held liable for any amount by either party.

4. SETTLEMENT OF DIFFERENCES

4.1 In money market transactions, trading differences are to be discounted on to Present Value basis, which is calculated as:

> Difference x D x P ÷ Q + (I x D)
>
> Where Difference = Difference in interest rates.
> D = Number of days.
> P = Principal
> I = Interest rate that broker finally cuts out at
> Q = Interest Day Basis x 100.

In the absence of prior arrangements, differences are payable at value date.

5. DEPOSIT PERIODS

5.1 Unless otherwise specified, the deposit period for placement of deposits is calculated based on the actual number of days.

6. DAY COUNT BASIS FOR INTEREST CALCULATIONS

6.1 Unless otherwise specified, for the purpose of calculating interest, one year is deemed to comprise 365 days for Singapore Dollar transactions but 360 days for transactions in most other currencies. The practice is not uniform in all currencies and care should be exercised.

Chapter VIII
DEBT SECURITIES DEALING PRACTICES

This Chapter provides basic guidance for the conduct of debt securities. In view of the diversity of debt securities and the markets for their primary and secondary transactions, this Guide is limited to general market practices.

1. GENERAL REFERENCES ON MARKET PRACTICES

1.1. In addition to this Section, reference should be made to the following:

a. Singapore Government Securities (SGS) - 'Rules And Market Practices Of The Singapore Government Securities'.

b. International securities - 'International Securities Market Association's (ISMA) Rules And Recommendations'.

2. PRICE QUOTATIONS

2.1 Prices are usually quoted clean, excluding accrued interest.

3. VALUE DATES

3.1 The usual value dates for secondary transactions in the major markets are: -

a. Singapore Market:

- Singapore Government Securities - The business day immediately after the trade Securities date
- Corporate - Subject to mutual agreement, but normally within seven calendar days after the trade date

b. German Market - Usually three business days after the trade date

c. Japanese Market (JGBs) - Usually three business days after the trade date

d. UK Market (Gilt-Edged) - The business day immediately after the trade date

e. US Market:
- US Treasuries and Federal Agencies - The business day immediately after the trade date
- Corporate and Yankees - Three business days after the trade date.

f. EuroDollar Bonds - Three business days after the trade date

3.2 Misunderstandings can arise over the definition of “value date” and “business day”, given the observance of different holidays in various financial centers. In quoting prices, market participants are therefore strongly urged to make clear to their counterparties the precise dates for settlement of transactions.

4. INTEREST ACCRUAL BASIS

4.1 Generally the following accrual basis shall apply:

a. Singapore Market:

  - Singapore Government Securities - ACT/ACT
  - Corporate - ACT/365

b. German Market - 30/360

c. Japanese Market (JGBs) - ACT/365

d. UK Market (Gilt-Edged) - ACT/365

e. US Market:

  - US Treasuries and Federal Agencies - ACT/ACT
  - Corporate and Yankees - 30/360

f. EuroDollar Bonds - 30/360

ACT - Actual number of days.

Chapter IX
OTC Derivatives Dealing Practices

This Chapter provides guidance for the conduct of dealing in Forward Rate Agreements, Interest Rate Swaps, Currency Options and Interest Rate Options.

Part A
FORWARD RATE AGREEMENT (FRA)/INTEREST RATE SWAPS (IRS)

1. PRODUCT DESCRIPTION

1.1 The FRA referred to in this Section are up to 1 year tenure and based on the Forward Rate Agreement British Bankers' Association (FRABBA) terms and conditions. The IRS referred to in this Section are short-term (up to 2 years) and are commonly traded in the interbank market, supported by money brokers. This Code applies to direct FRA and IRS transactions between banks and those through money brokers.

2. DEALING THROUGH BROKERS

2.1 Principals have an obligation to specify to the broker where a deal for less than the minimum dealing amount is involved. Where a Principal cannot deal with another Principal on grounds of credit limit, this information must be given to the broker at an early stage of the FRA or IRS negotiation. The Principal can be more specific by stating the nationality of the Principals with whom it can deal.

2.2 At an early stage of the negotiation on a proposed FRA or IRS transaction, parties not acting for themselves are to identify the capacity in which they are acting, e.g. for a subsidiary or another branch.

2.3 Clearing of a Principal's name by the potential counterparty should be done within a reasonable period of time. When a reply is not forthcoming, the broker is to enquire about the outcome with the party clearing the name. Where, in spite of this, there is still no definite answer, the broker is allowed to take the order off.

3. NEGOTIATION OF TERMS

3.1 As the FRA and IRS markets often use "indicative interest" quotations, Principals and brokers have an obligation to be very clear when an interest is indicative only.

3.2 Special care must be given when Principals place conditional orders with brokers. Examples would be when a quoted rate or quoted spread is "firm subject to credit", or "firm subject to futures prices", etc. When the condition is fulfilled, the Principal is bound to deal at the quoted rate or quoted spread. All such conditions to which the FRA or IRS is subject prior to being executed must be clearly stated in the early stages of negotiation.

3.3 Once the name of the other counterparty is disclosed, it is not acceptable practice for a Principal to, through a broker, revise a rate which is “firm subject to credit”. The broker should be allowed to go “choice” on the price for *short time*. By the same token, the two Principals shall not contact each other directly with a view to concluding the deal at a different rate.

4. TERMS AND CONDITIONS

4.1 For FRA transactions:

4.1.1 The FRABBA terms and conditions with or without variation should be made clear by all parties in the early stages of negotiation.

4.1.2 Under FRABBA terms, fixing and settlement dates in a FRA cannot fall on UK holidays, regardless of the currency traded. Hence, counterparties transacting for dates falling on UK holidays must explicitly state so, from the outset, as a variation to FRABBA terms.

4.2 For IRS transactions, institutions should, where appropriate, use the International Swap and Derivatives Association Inc (ISDA) 1992 or 2002 Master Agreement or BBAIRS terms. The terms or model, with or without variation, should be made clear by all parties in the early stages of negotiation.

5. DEALING PROCEDURES

5.1 For FRA transactions:

5.1.1 Market participants should pay particular attention to the following matters. The list should not be viewed as exhaustive and should not substitute the participant’s own checklist.

a. Clearly state the full financial terms and other terms of the transaction especially if there are variations to the standard form.

b. Clearly state the amount and tenure of the FRA.

c. Clearly state the fixing date.

d. Clearly state the settlement date.

5.2 For IRS transactions:

5.2.1 Market participants should pay particular attention to the following matters. The list should not be viewed as exhaustive and should not substitute the participant’s own checklist.

a. Clearly state the full financial terms and other terms of the transaction especially if there are variations to the standard form.

b. Identify which side of a swap they are on in terms of what they wish to pay and receive as cash flows throughout the life of the swap. Discussing positions in terms of buyers/sellers or providers/takers or bid/offer can cause misunderstandings in some sectors of the market.

c. Specify the maturity of the proposed transactions, giving details of any date matching requirements.

5.2.2 It is regarded a good practice for a market participant, subject to their own legal advice, to alert a potential counterparty to any legal or tax uncertainties which the market participant knows are relevant to the proposed transaction, in order that the potential customer may seek his own legal advice.

6. SETTLEMENT OF DIFFERENCES

6.1 When a broker cannot substantiate his quotation and a difference is payable to the Principal, the broker should close the FRA or IRS deal at the next available price and settle the difference by sending a cheque for the amount to the Principal setting out the details of the deal.

6.2 Principals should not insist that the deal be contracted at the original rate but should accept a cheque in settlement of the difference.

6.3 In both FRA and IRS transactions, trading differences are to be discounted to Present Value basis, which is calculated as

$$\left(\frac{\text{Difference} \times T \times P}{Q + (I \times T)} \right) \div \left(I + \left(\frac{L \times D}{Q} \right) \right)$$

Where

Difference = Difference between the original interest rate and “I”.
I = Interest rate that broker finally cuts out at.
T = Tenure of FRA or IRS in days.
P = Notional Principal of FRA or IRS.
Q = Interest Day Basis x 100.
L = SIBOR or BBA LIBOR for reinvestment for period D (SIBO or LIBO on Reuters, 7311 or 3750 on Telerate).
D = Period from Spot date to settlement date of FRA or IRS.

6.4 In the absence of prior arrangements, differences are payable on spot date.

7. ASSIGNMENT OF SWAP DEALS

7.1 Brokers and Principals assigning or transferring a swap to a third party must ensure that

a. Principals are aware that they are ultimately responsible for assessing a counterparty's creditworthiness.

b. Their respective staff are well trained in the practices of the market place and are aware of the firm's business responsibilities.

Part B
CURRENCY OPTIONS

8. TERMS AND CONDITIONS

8.1 Institutions should make every effort to enter into internationally recognized agreements, particularly those based on International Currency Options Market (ICOM) or the International Swap and Derivatives Association Inc (ISDA) terms and conditions.

9. DEALING PROCEDURES

9.1 Market participants should pay particular attention to the following matters when transacting in currency options:

a. Clearly state the following:

- Option style (American or European)
- Buyer and Seller
- Amount
- Call currency
- Put currency
- Expiration date, time and procedure
- Premium payment date and amount
- Settlement date
- Strike price
- Exact legal name of counterparty

It is assumed that a delta hedge will be simultaneously entered into, unless otherwise agreed upon and stated in the confirmation.

b. Clearly state the method of price quotation:

- Premium, where the counterparties agree to the terms in 9.1.a and how the premium should be expressed e.g. either as a percentage of either currency; or as one currency in terms of the other. It is also necessary to agree on a Spot Rate in the case of a premium quotation, where the delta hedge forms part of the trade.

OR

- Volatility, where the counterparties agree to the terms in 9.1.a and that the Volatility be expressed as a percentage per annum. It is also necessary to agree on the Spot Rate and the relevant FX Swap points immediately upon entering into the option. The Spot Rate and the reference swap points, combined with other factors, are used to compute the premium.

Note : it is generally acknowledged that an option is not a legally binding contract until, among other things, the premium has been agreed. Therefore, to ensure the ongoing viability of the Volatility method of dealing, it is incumbent on the counterparties to agree that the calculation of the premium accurately reflects the agreed Volatility and market conditions at the time Volatility was agreed. If the counterparties cannot resolve a dispute through good faith negotiation, prompt reference to mutually acceptable third-party arbitration is suggested.

10. CONFIRMATIONS

10.1 It is recommended that market participants, both principals and brokers follow established confirmation format and terminology in order to reduce the risk of misunderstandings. For instance, FX Option Confirmations attached in the ISDA 1998 FX and Currency Options Definitions could be used. Market participants frequently enter into a contemporaneous delta hedge at the time they enter into an option transaction (either with the option counterparty or a third party). It is market practice (and market participants are encouraged) to confirm such transactions separately from the option confirmation. In addition, it is suggested that the brokers send confirmations of any delta hedges, which they arrange, to the parties involved.

Part C
INTEREST RATE OPTIONS

11. PRODUCT DESCRIPTION

11.1 Interest rate options referred to in this section are Interest Rate Swaptions, Interest Rate Caps and Floors, and Bond Options.

12. TERMS AND CONDITIONS

12.1 For interest rate option transactions, institutions should whenever ever possible, use the International Swaps and Derivatives Association Inc (ISDA) 2002 Master Agreement.

13. DEALING PROCEDURES

13.1 Market Participants should pay particular attention to the following matters when transacting in Interest Rate Options:

a) Clearly state the terms of the transaction

For Swaptions

- Both tenor of option and tenor of underlying swap in accordance with market convention. For example - 3 year into 3 year swaption
- Whether price is for Payers or Receivers Swaption or for Swaption Straddle
- Strike yield of Swaption
- Notional amount
- Expiration date and time. Market participants should endeavor to use the market standard expiration time for a particular currency and should clearly state if they wish to have a non-standard expiration time
- Whether Swaption is for physical delivery or cash settlement. It should be assumed physical delivery, unless otherwise specified at outset.
- Premium amount and payment date.

For Interest Rate Caps / Floors

- Tenor of interest rate cap / floor
- Whether cap or floor
- Roll frequency of interest rate cap / floor. This should be the same as the market standard for underlying IRS Market unless clearly specified at outset.
- Strike yield
- Notional amount
- Premium amount and payment date

For Bonds Options

- Tenor of option
- Underlying bond
- Call or Put option
- European or American option
- Strike price or yield
- Expiration date and time
- Notional amount
- Physical or cash settlement. It should be assumed physical settlement, unless otherwise stated at outset.
- Premium payment amount and date

b) Clearly state the method of price quotation

- Premium: Quoted as an up-front percentage, OR Volatility

  For Swaption and Caps / Floors: This is the volatility of the underlying yield quoted as a percentage per annum.

  For bond options: This is the volatility of the underlying bond's price, quoted as a percentage per annum.

13.2 For all interest rate option transactions, it is assumed that a simultaneous delta hedge would be entered into unless clearly stated otherwise. The percentage of the delta hedge and the exact yield or price at which this would occur should be clearly stated at the outset.

13.3 In respect of 13.1.b, when counter-parties agree to deal with each other on a volatility-based quote, they should immediately agree on the effective premium of the option given the details of 13.1.a. If the counter-parties fail to agree on the calculation of the option premium amount based on the volatility dealt, it is suggested that reference to a mutually agreed third-party is promptly made to settle the dispute. Disagreement on the option premium amount after a deal is concluded based on agreed volatility should not be used as justification to withdraw from the transaction.

14. CONFIRMATIONS

14.1 It is recommended that all market participants, both principals and brokers adopt the established confirmation format and terminology in the 2002 ISDA Definitions.

14.2 In addition, any delta hedge simultaneously exchanged should be confirmed separately from the option transaction, in line with regular format for an interest rate swap or bond transaction.

Chapter X
Emerging Market Activities

This Chapter sets out issues pertaining to activities for which codified and/or uniform market practices are still evolving, such as Credit Derivatives and Non-Deliverable Forwards.

1. GENERAL CHARACTERISTICS & STANDARDS

1.1 In response to rapidly changing customer needs and market conditions, new products are constantly introduced in the financial markets. Unlike mature products, dealing practices in these emerging market activities are often not uniform or codified. However, all participants in such activities are expected to abide by the general principles enunciated in the preceding chapters of this Guide.

1.2 No party should endeavor to leverage on the absence of coded practices to deal in bad faith or exert unreasonable demands on other market participants.

2. IMPORTANCE OF CLARITY

2.1 When dealing through brokers, Principals have an obligation to provide clear instructions in respect of their orders. On the other hand, brokers are advised to seek clarifications from Principals whenever necessary. This is especially crucial when both parties are working together for the first time in a particular product.

2.2 When dealing with another Principal directly, the proposed terms of a transaction should be similarly clarified and confirmed before a deal is done.

2.3 At an early stage of negotiating a transaction, parties not acting for themselves are to identify the capacity in which they are acting, e.g. for a subsidiary or another branch.

3. HANDLING TECNICALITIES

3.1 Some emerging products may embody legal and other technical terms that require comprehensive knowledge and understanding. All parties to a deal should ensure that a common understanding of these terms exist before concluding a transaction. For this purpose, it is recommended that, where appropriate, reference is made to specific definitions such as ISDA Credit Derivatives Definitions 2003 for clarity.

3.2 Special care must be taken by both Principals and brokers to ensure that persons handling such technicalities at each stage of the negotiation or processing are fully competent. Ignorance is not a justifiable plea when a mistake is made or discovered.

4. RISK MANAGEMENT RESPONSIBILITIES

4.1 All parties engaging in emerging market activities are generally expected to have fully understood the risks that they are assuming and have the means to manage these risks. Such responsibilities include, inter alia, the means to execute prompt confirmations as well as to carry out all its other obligations to its counterparts.

4.2 Some participants, especially new entrants, might however find it necessary to depend on other firms for some form of risk management support, such as third-party revaluation of a transaction or revaluation rates. In such instances, it must be understood that unless these services are contractually governed, the party rendering support is not expected to assume any specific responsibility. The onus is on the party seeking support to ensure that appropriate steps are taken to manage its own risks when relying on another party for support.

5. ARBITRATION

5.1 Where two parties to a deal cannot resolve a dispute after exhaustive effort, they may with mutual consent seek the assistance of the SFEMC. Please refer to Item 12 in Chapter III for details.

5.2 In the absence of uniform practices, each case shall be dealt with on its own merits based on the test of reasonableness.

Chapter XI
MARKET TERMINOLOGY AND DEFINITIONS

This section sets out commonly-used expressions and endeavor to clarify their accepted meaning. Adherence to them will do much to reduce misunderstanding and frustration.

1. Foreign Exchange, Money Market, FRA and IRS

Yours	Seller or lender of currency.
Comes at	Seller of FRA.
I Give at	Receiver of fixed rate in IRS
I Sell at/I Offer at	Seller of currency on forward leg in FX swap
Mine	Buyer or Borrower of currency.
I Bid at	Buyer of FRA.
I Pay at	Payer of fixed rate in IRS
I Take at/I Buy at	Buyer of currency on forward leg in FX swap.
Given	A case in which a bid has been dealt.
Taken/paid	A case in which the offer has been dealt.
Off	Nullification of a rate currently being quoted in the market.
Join	The placing of either an additional bid (or offer) equivalent to the best currently available in the market.
Checking	To check the availability of a credit line for the counterparty prior to the conclusion of a deal.
Firm	A dealer making an offer or bid on a "firm" basis is committed to deal but he may add some qualifications on time.
Under Reference	A deal cannot be finalized without reference to the bank which placed the price. Dealers should refrain from excessive use so as to respect firm price principle.
Risk	Quoted rates are subject to change.
My risk	A reply by price-taker when unable to immediately respond to intention to deal on the price quoted. A fresh price should be sought by asking "How now?"

Your risk	A term used by price-maker when the party seeking a price has been too slow in responding to a price quote and that the party should seek a fresh price to deal.
Done	A term used when a transaction is concluded.
Nothing done	A term used when a transaction is not concluded.
Value Date	Settlement Date.
Value Spot	Settlement two business days from transaction date.
Value Tom	Settlement one business day from transaction date.
Value Today	Settlement on transaction date.
Overnight	Deposit or swap transaction for settlement on Today/Tomorrow transaction date to or against the next business day after transaction date.
Tomorrow/Next	Deposit or swap transaction for settlement on Tom/Next the next business day against the second business day after transaction date.
Shorts (Short dates)	Deals for any number of days up to one month.
Forward	Deals for periods of one month and beyond from spot.
End Date	Where a maturity date falls on a non business day, it is automatically deferred to the next business day. If this maturity date falls on either a weekend or a Bank holiday, the end date will be on the next business day unless that day is in the following month, in which case the end date should be the day before the original maturity date.
End/end	A forward or deposit deal with a value date commencing on the last business day of the month which is intended to mature on the last business day of an appropriate future month.
Turn of the year	Value last business day of the fiscal year against the first business day of the next fiscal year.
Forward/forward	A forward sale against a forward purchase or vice versa.

IMM Date	Delivery value date of futures contracts of the Chicago Mercantile Exchange (CME), denominated in standard International Monetary Market (IMM) units. This is the third Wednesday of the following months, usually March, June, September and December, referred to as MAR IMM, JUN IMM, SEP IMM and DEC IMM respectively.
Foreign Exchange	A spot sale of currency combined with its Swap repurchase at a later date, or vice versa.
Par	Where the forward price is the same as the spot price.
Premium	A currency which is more expensive to purchase at a future date than at spot.
Discount	A currency which is less expensive to purchase at a future date than at spot.
Long (Overbought)	Excess of purchase over sales.
Short (Oversold)	Excess of sales over purchase.
Square	Purchase and sales are equal.
Open Position	Difference between total spot or forward purchases and sales in a currency.
Packaged deal	A deal involving several operations which have to be done simultaneously.
Choice	Lender and Borrower or Seller and Buyer at the same price.
Details	Information a dealer requires after the completion of a deal i.e. currency, amount, name of counterparty, rate, value date and delivery instructions.
Cross rate	The exchange rate for one non-US Dollar currency and another non-US Dollar currency.
Yard	One thousand Million.
For indication, info	Quotations are not firm and may be an indication of unwillingness or inability to deal.

2. Debt Securities Markets

Basis	1/100th of a percentage point.
Bid	The price or yield on a security at which a purchaser will buy it.
Carry	The (positive or negative) return on a security net of the financing cost.
Hit the bid (price)	Sell at the bid price.
Take the offer	Buy at the offer price.
Give-up	The loss of yield resulting from the sale of securities at one yield and purchase of securities at a lower yield.
Margin	The stated margin (or spread) is expressed as a percentage, added to or subtracted from a reference interest rate (e.g. 6-month LIBOR) to establish the coupon rate of a floating rate instrument.
Offer	The price or yield of a security at which a vendor is willing to sell.
On the run	Most recently issued bills or bonds.
Par	100% of the nominal value of a security.
Paper	Generic term referring to securities.
Pick-up	The gain in yield resulting from the sale of one block of securities and purchase of another.
Pip	1/100th of one percent of the nominal value of a security, for example $0.10 per $1000.
Point	One percent of the nominal value of a security; i.e. one hundred basis points.
Tick	Smallest fraction of price at which a security is typically traded.
When Issued (WI)	Trades before a debt security is issued. Settlement occurs when and if the security is issued, reflecting the period between the announcement of a security's auction and its issuance.

3. Currency Options

Term	Definition
American Style	An option which may be exercised on any Option business day up to and including the expiration day.
ARO (Average rate option)	These are options, which refer to the average rate of the underlying exchange rate that existed during the life of the option. This average will be used to determine the intrinsic value of the option by comparison with the predetermined fixed strike. If the option is a call option and the average rate exceeds the strike, the buyer will receive a cash flow (i.e. the difference between the average rate and the strike). For a put option, the average must be below the strike.
At - the - money	An option is at-the-money when the price of the underlying instrument is very close to or equal to the option's strike price.
Buyer (Holder)	The party which purchases an option by the payment of a premium and who has the right but not the obligation to buy (call) or sell (put) the currency.
Call option	The right to purchase a specified amount of a specified currency against another currency by a certain date at a certain price.
Compound	A compound option is an option on an option: the buyer has the right to buy a plain vanilla call or put option at a predetermined date and at a predetermined rate. The strike of the plain vanilla option is also predetermined.
Delivery date	The date on which delivery of the two currencies involved is conducted based on the exercise of an option. Normally, it is two business days after the expiration date.
Delta Hedge	A foreign exchange transaction which squares up the potential foreign exchange position created when an option transaction is concluded. Potential foreign exchange position is obtained by multiplying the option transaction amount by the delta.
Delta	The ratio of change in the option premium compared with change in the price of the underlying currency, when all other conditions remain unchanged.

Digital — A digital option is a transaction where a specified amount will be paid if the spot rate is above the strike at expiry for calls (or below the strike for puts). The intervening path of spot between the trade date and expiry is irrelevant: the determining factor is whether or not the spot is above or below the strike at the time of expiry.

Double knock-in — A double knock-in option is a standard type of option that automatically appears if one of the formerly specified exchange rates (or an exceeding level) is dealt in the spot market before expiration. The double knock-in then becomes a standard (= plain vanilla) option.

Double knock-out — A double knock-out option is a standard type of option that automatically disappears if one of the formerly specified exchange rates (or an exceeding level) is dealt in the spot market before expiration.

Double one touch — A double one touch is a transaction where a specified amount will be paid on the delivery date only if spot has dealt (exceeding) one of the two exchange rates previously specified before expiration

European Style — An option which can only be exercised on the Option option's expiration date.

Exercise (Strike) — The price at which the option holder has the Price right to buy or sell the underlying currency.

Exercise Date — The business day on which an option can be exercised by the holder.

Exercise — Process by which the holder of an option elects to take delivery (call) or deliver (put) a currency according to the contract terms.

Expiration Date — The last day on which an option holder can exercise the option.

Expiration Time — The latest time on the expiration date which the seller will accept a notice of exercise (usually 3.00 p.m. London time, 10.00 a.m. New York time or 3.00 p.m. Tokyo time).

Historical volatility — The standard deviation of the logarithm of the relative price of the underlying instrument expressed as an annual rate. Calculations are based on market movements.

Implied volatility
: The volatility of an option derived from its remaining characteristics, which are known; i.e. strike price, premium, expiration date, interest rates and style.

In - the – money
: An option is in-the-money when the price of the underlying instrument is lower than the strike price of the put option or the price of the underlying instrument is higher than the strike price of the call option.

Intrinsic value
: The amount by which an option is in-the-money, (on a mark to market basis.)

Knock-in
: A knock-in option is a standard type of option, which automatically appears if a formally specified exchange rate or an exceeding level is dealt in the spot market before expiration. Knock-in option reaches the instrike point when the spot rate moves towards "out-of-the-money".

  Reverse knock-in option (or "kick-in-option") reaches the instrike point when the spot rate moves towards "in-the-money.”

Knock-out
: A knock-out option is a standard type of option, which automatically disappears if a formerly specified exchange rate or an exceeding level is dealt in the spot market before expiration. In the knock-out option, the spot rate moves towards "out-of-the-money" in order to reach the outstrike. Reverse knock-out option (or "kick-out-option") reaches the outstrike point when the spot rate moves towards 'in-the-money".

No touch
: No touch is a transaction where a specified amount will be paid on the delivery date only if the spot rate is not dealt at the touchstrike or an exceeding exchange rate level previously specified before expiration. No touch is also called "lock out".

Notice of Exercise
: Telex, telephonic or facsimile transmission providing assurance of notification which shall be irrevocably given by the buyer prior to or at the expiration time of the exercise of an option.

One touch
: One touch is a transaction where a specified amount will be paid only if the spot rate is dealt at the touchstrike or an exceeding exchange rate previously specified before expiration. One touch is also called "lock in" or "touch digital". There are also types where the specified amount will be paid two days after the deal has matured.

Out-of-the-money
: An option is out-of-the-money when the price of the underlying instrument is higher than the strike price of the put option or the price of the underlying instrument is lower than the strike price of the call option.

Premium	The purchase price of the option payable by the buyer to the seller value spot.
Put	An option giving the buyer the right to sell and the seller the obligation to buy a pre-determined amount of the underlying currency on a pre-determined date at the strike price.
Range binary	Range binary (also called a double no touch) is a transaction where a specific amount will be paid only if spot is not dealt at, or at levels exceeding the predefined two exchange rates before expiration.
Risk reversal	This term refers to a combination of a long (short) call option and a short (long) put option with, as a rule, same style, notional value, same expiration date and same absolute value of the delta.
Seller (writer)	The party which sells an option and receives a premium and is obliged to perform if and when the holder exercises the option.
Settlement Date	Two business days following the exercise date; the day on which the currencies involved are exchanged.
Spot	The spot delivery day as used in the foreign exchange market.
Straddle	A combination of the purchase of both a call and a put or the sale of both a call and a put with identical characteristics i.e. style, expiration dates and same notional amounts and the same strike price.
Strangle	A combination of the purchase of both a call and a put or the sale of both a call and a put with different strike prices but with identical other characteristics such as style, expiry dates and notional amounts.
Synthetic forward	This term refers to a combination of a long (short) call option and short (long) put option with same face value, same expiration date, same style, and where the strike price is equal to the forward price.
Time value	The portion of an option's value that equals the option current premium minus the intrinsic value.
Volatility	Annualized percentage rate of change of a currency pair.

Chapter XII
BROKING AND BROKERAGE

1. APPROVAL OF BROKERS

1.1 The brokers have been playing an important role in facilitating interbank transactions. With the significant increase in transaction size and volume, the brokers' credit standing is important for the maintenance of a sound and efficient financial system. Banks should therefore set up their own credit evaluation and approval policy relating to the appointment of authorized brokers by their senior management before dealers transact with them. When using cross-border brokers, the broking firms' capital adequacy should also be taken into account.

2. ELECTRONIC BROKING

2.1 Transactions executed through an electronic broking system should be handled in accordance with the provisions of individual vendor's Dealing Rule Book and all documents and agreements relating to a customer's utilization of the services. The vendor's Dealing Rule Book should stipulate clearly the procedure and responsibilities that apply in the event of

- A communication breakdown at the point of or during the consummation of trades
- Off-market discrepancies
- Software inadequacies or limitations ("bugs")

2.2 A deal is considered "Done" whether it is intentionally or unintentionally "Hit". In the event of a wrong hit where the rate dealt is deemed to be way off the existing market price owing to input error or otherwise, the hitting bank should contact the counterparty involved immediately to get the deal nullified.

2.3 In the event of a line failure "connection lost", immediate attempt should be made to contact the counterparty involved in order to clarify on the transaction.

2.4 On matters not provided for in the vendor's Dealing Rule Book or any other document or agreement relating to a customer's utilization of the services, this Guide (The Blue Book) will apply.

2.5 Dealers are cautioned against keying into the Dealing System Bid and Offer for amounts that they do not intend to honor.

2.6 Management of banks should institute control measures to prevent unauthorized access to any electronic broking system or any other undesirable practice involving such a system. This is to prevent any possible fraudulent deals or input of off-market rates.

3. BROKERAGE

3.1 Brokerage is subject to negotiation between broking firms and banks. Such charges should be agreed upon by senior management of each side in writing. Revisions should follow the same procedure.

3.2 Brokerage is normally payable before the end of the following month.

3.3 Calculation of brokerage:

> 3.3.1 Currency deposits: brokerage shall be based on the number of days in the deal period and on the interest day basis of the respective currency.
>
> 3.3.2 Spot foreign exchange: brokerage shall be based on the amount of the deal.
>
> 3.3.3 Foreign exchange swap transactions: brokerage shall be charged based on the near-end amount only.
>
> 3.3.4 Forward rate agreements: brokerage shall be based on the number of days in the contract period and on the interest day basis of the respective currency.
>
> 3.3.5 Interest rate swaps: brokerage shall be based on the number of days in the fixed portion of the swap and on the interest day basis of the respective currency.

3.4 Brokers' statements should be expressed in the currency of the deal. The total brokerage on the monthly statements will then be converted to Singapore dollars at the arithmetic mean of the middle Telegraphic Transfer (TT) rates of the major local banks[2] on the last day of the preceding month.

3.5 While the settlement of brokerage bills is a commercial matter between a bank and its broker, it is recommended that such settlements should not be delayed on account of isolated disputed transactions.

[2] At the point of the revision of The Blue Book, major local banks mean DBS, OCBC & UOB